**DIRECT TESTIMONY OF**

**KEITH C. COFFER, JR.**

**ON BEHALF OF**

**SOUTH CAROLINA ELECTRIC & GAS COMPANY**

**DOCKET NO. 2009-2-E**

**Q. PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.**

A. My name is Keith C. Coffer, Jr. My business address is 1426 Main Street, Columbia, South Carolina.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am employed by SCANA Services, Inc. and serve as the Assistant Controller of South Carolina Electric & Gas Company (the "Company" or "SCE&G").

**Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND BUSINESS BACKGROUND.**

A. I earned a Bachelor of Science degree in Business Administration from The Citadel in May of 1992. After fulfilling a military training obligation, I joined the South Carolina State Auditor's Office as an auditor. In August of 1995, I left this position to work with the public accounting firm of Hamilton, Schmoyer & Co. where I provided accounting and auditing services to clients primarily in the long-term health care industry. In July 1997, I took a position in SCANA's internal audit department and in January 1999 I was promoted to Customer Billing Supervisor where I was responsible for ensuring accurate billings to SCE&G's residential and commercial customers and ensuring the accuracy of accounting transactions within the billing cycle. In July 2000, I was promoted to Supervisor of Property Accounting where I was responsible for accounting for SCE&G's fixed assets. I was promoted to my current position in October 2002 and am responsible for the accounting function of SCE&G. This includes ensuring that all business transactions are accounted for in accordance with applicable accounting principles and that the Company maintains an adequate system of internal accounting controls. I am a certified public accountant in South Carolina and a member of the American Institute of Certified Public Accountants and the South Carolina Association of Certified Public Accountants.

**Q. HAVE YOU PREVIOUSLY OFFERED TESTIMONY IN REGULATORY PROCEEDINGS?**

A. No. This is my first time offering testimony.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

A. My testimony in this proceeding recommends crediting a balance of approximately $25 million against the electric fuel clause under-collection as a result of converting the fuel clause administration process from a cycle month sales calculation basis to a calendar month sales calculation basis and addresses the appropriateness of this change in methodology. This change would serve to more precisely match fuel expenses under review in a particular period with the sales they support.

**Q. PLEASE EXPLAIN THE CURRENT PROCESS USED TO CALCULATE THE COMPANY'S MONTHLY FUEL CLAUSE ADJUSTMENT.**

A. The process that SCE&G currently uses to calculate its monthly electric fuel clause over- or under-collection adjustment includes the determination of an actual fuel cost per kilowatt-hour (KWH) by dividing calendar month fuel expense by the sales that are billed to customers during the month on a cycle-billed basis. This process has long been accepted in the administration of the fuel clause and in periodic reviews over the years. Nevertheless, the use of cycle-based sales in the computation results in a less precise matching of fuel costs with the sales generated from the use of that fuel than would be the case were calendar-based sales used in the computation.

**Q. PLEASE EXPLAIN WHAT YOU MEAN BY CYCLE SALES.**

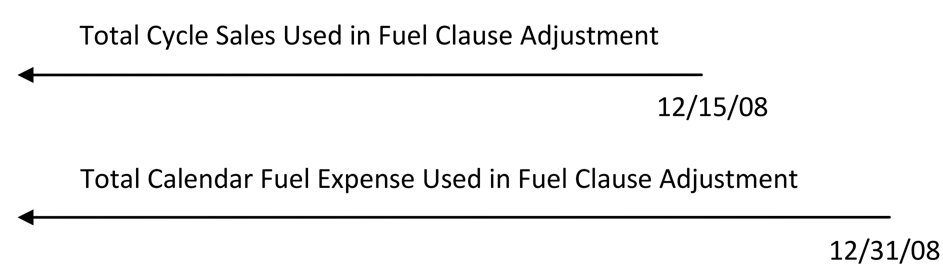
A. Because it is not feasible to read all meters on the last day of a month and in keeping with standard practice in the electric utility industry, SCE&G reads its electric meters over 20 cycles throughout the course of each month. As a result of this practice, a meter which is read in the middle of December (and the customer bill created from that reading) will actually include usage which occurred in both the month of November and the month of December. This billing that is based on meter reading schedules that differ from the actual calendar month is referred to as cycle billing and the related sales are referred to as cycle sales.

**Q. WHAT ACCOUNTING CHALLENGES DOES THE PROCESS OF CYCLE BILLING CREATE?**

A. The process of cycle billing creates a situation in which, at the end of any given month, there is electricity which has been used by the customer but for which they have not yet been billed. This is called "unbilled revenue." Returning to the example above, the customer whose meter was read in the middle of December will continue to use electricity for the rest of the month, but that electricity will not be included in a billing until after the January meter reading. Therefore, this usage will not be billed to the customer until January. Under Generally Accepted Accounting Principles (GAAP), the Company maintains its accounting books and records on a calendar month (or full accrual) basis. Therefore, at the end of each month, GAAP requires the Company to estimate this unbilled usage and recognize the associated revenue in its accounting records.

**Q. HOW DOES THIS PROCESS IMPACT THE FUEL CLAUSE ADJUSTMENT CALCULATION?**

A. The impact may best be demonstrated by the following timeline diagram of the data used to calculate SCE&G's under-collected fuel costs as of December 31, 2008:



As depicted, for regulatory reporting purposes, total fuel expense through December 31, 2008 has been included in the derivation of SCE&G's under-collected fuel balance as of December 31, 2008, whereas only sales through the middle of December have been included. This long-standing calculation methodology creates an under-collection of the fuel expense incurred from December 16 – December 31 because the related sales through which this expense is to be recovered have not been included in the calculation. However, the Company recovers this fuel cost when the customer is billed for this use in the following month.

**Q. UNDER GAAP, HOW HAS THE COMPANY ACCOUNTED FOR THIS DELAY IN FUEL COST RECOVERY IN ITS ACCOUNTING RECORDS?**

A. As part of its unbilled revenue calculations each month, the Company estimates this unbilled fuel cost recovery and recognizes the impact in its financial statements. An offset to the fuel clause under-collected balance is then recorded in a separate general ledger account. As of December 31, 2008 this estimated offset was a credit balance of approximately $25 million.

**Q. HOW DOES THE COMPANY PROPOSE TO TREAT THIS UNBILLED FUEL COST RECOVERY?**

A. The Company proposes that the balance in this offset account be used to reduce the under-collected fuel balance as of December 31, 2008, and that this offset account be considered in all future fuel clause adjustments. This will have the effect of more precisely matching calendar month fuel expense with the sales generated from the use of that fuel and therefore more precisely state the fuel clause under- or over-collected balance at any point in time. The proposed treatment will remove any delay of consideration of this unbilled fuel cost recovery in the Company's under-collected fuel balance for regulatory reporting purposes and yield a reduction of $24,997,275 to the Company's under-collected fuel balance as of December 31, 2008.

**Q. DOES THIS PROPOSED CHANGE IN METHODOLOGY MEAN THAT THE COMPANY HAS INCORRECTLY TREATED THIS ITEM IN PRIOR FUEL CLAUSE ADJUSTMENT CALCULATIONS?**

A. No. The existing fuel clause administration process has been applied consistently for many years and is fully consistent with the fuel clause statute. The Company believes that this change in methodology is a process administration matter and that the proposed change will merely serve to more precisely match fuel costs with the sales they support while continuing to be in full compliance with the fuel clause statute.

**Q. HAS THE BALANCE IN THE OFFSET ACCCOUNT GROWN OVER TIME?**

A. Although the balance in the offset account may fluctuate due to the seasonality of usage and fuel prices, the balance in the account will always be related only to the unbilled usage of the current calendar month and will never be allowed to accumulate on the Company's books. In other words, it always represents current dollars.

**Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

A. Yes. It does.